

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

<b>CENTRAL ILLINOIS LIGHT COMPANY</b>	)	
<b>d/b/a AmerenCILCO</b>	)	
	)	
<b>CENTRAL ILLINOIS PUBLIC SERVICE</b>	)	<b>Docket Nos. 07-0585, 07-0586</b>
<b>COMPANY d/b/a AmerenCIPS</b>	)	<b>07-0587, 07-0588, 07-0589,</b>
	)	<b>and 07-0590 (cons.)</b>
<b>ILLINOIS POWER COMPANY</b>	)	
<b>d/b/a AmerenIP</b>	)	
	)	
<b>Proposed general increase in rates for</b>	)	
<b>delivery services.</b>	)	

**REBUTTAL TESTIMONY OF DAVID J. EFFRON**

ON BEHALF OF  
THE PEOPLE OF THE STATE OF ILLINOIS AND  
THE CITIZENS UTILITY BOARD

**AG/CUB Exhibit 4.0**

**MAY 14, 2008**

1   **Q.     Please state your name and business address.**

2   A.     My name is David J. Effron. My address is 12 Pond Path, North Hampton, New  
3           Hampshire, 03862.

4  
5   **Q.     Have you previously submitted testimony in this docket?**

6   A.     Yes. I submitted direct testimony on March 14, 2008, marked as AG/CUB Exhibit  
7           1.0. My qualifications and experience are included with my direct testimony.

8  
9   **Q.     What is the purpose of your rebuttal testimony?**

10  A.     In this rebuttal testimony, I respond to the rebuttal testimony of Companies'  
11           witnesses Stafford, Adams, Bauer, Wichmann, Getz, and Moloney regarding  
12           certain issues in the determination of the Ameren Companies'<sup>1</sup> revenue requirement  
13           and its revenue deficiency (or excess) under present rates. I also update certain of  
14           my proposed adjustments to rate base and operating expenses based the receipt of  
15           additional information since the preparation of my direct testimony and based on  
16           my responses to the Companies' rebuttal testimony as contained herein. Finally, I  
17           present revised calculations of the revenue requirements effect of the issues that I  
18           am addressing.

19  
20  **Q.     Do you respond to the rebuttal testimony of the Companies' witnesses on all**  
21  **revenue requirement issues in your rebuttal testimony?**

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<sup>1</sup> Collectively, AmerenCILCO, AmerenCIPS and AmerenIP.

1 A. No. The Companies have agreed with my recommendation to eliminate their  
2 proposed adjustments to the electric rate bases for additional cash working capital and  
3 have accepted certain of my proposed adjustments to accumulated deferred income  
4 taxes ("ADIT"). The Companies have also changed their proposed method of  
5 normalizing storm damage costs, which renders the issue of accumulated deferred  
6 income taxes related to storm damage moot. Further, the Companies have also  
7 agreed with my proposal to eliminate the MISO expense incurred by IP in 2006 from  
8 the electric distribution service revenue requirement. Accordingly, no further  
9 testimony on those issues is necessary

10

11 **Q. How is your rebuttal testimony organized?**

12 A. I address the issues in this rebuttal testimony in the same order that I addressed these  
13 issues in my direct testimony.

14

15 **Accrued OPEB**

16 **Q. Did Mr. Stafford accept your proposal to deduct the accrued liability for**  
17 **postretirement benefits other than pensions ("OPEB") from the Companies'**  
18 **rate bases?**

19 A. Yes. However, he modified my proposed rate base deductions to allocate a portion of  
20 the accrued OPEB to electric transmission service (Ameren Exhibit 19.0, pages 64-  
21 65).

22

1 **Q. Is the modification to your adjustment to allocate a portion of the accrued**  
2 **OPEB to electric transmission service appropriate?**

3 A. No. As shown on AG/CUB Exhibit 1.1, Schedule DJE-3, I had already allocated a  
4 portion of the accrued OPEB to electric transmission service. Ameren Exhibit 19.9,  
5 Schedule 1 begins on Line 1 with the accrued OPEB as calculated on AG/CUB  
6 Exhibit 1.1, Schedule DJE-3. Therefore, the “Allocation to Distribution” on Line 2 is  
7 unnecessary and duplicative. In response to AG Data Request 9.01, Ameren  
8 acknowledged that it is not necessary to apply the distribution allocation ratio on Line  
9 2 to the accrued OPEB on Line 1 of Ameren Exhibit 19.9, Schedule 1. On AG/CUB  
10 Exhibit 4.1, Schedule DJE-3 accompanying this rebuttal testimony, I show the effect  
11 of correcting Ameren Exhibit 19.9, Schedule 1 to eliminate the duplicative allocation  
12 of accrued OPEB to distribution service.

13

14 **Accrued Reserve for Injuries and Damages**

15 **Q. In his rebuttal testimony, Mr. Stafford states that because the Companies are**  
16 **using a “cash basis” to determine injuries and damages expense for ratemaking**  
17 **purposes, the reserve for injuries and damages is, in effect, negated for the**  
18 **purpose of setting rates. Do you agree with his position on this issue?**

19 A. No. The Companies have agreed to use the actual historic cash disbursements as a  
20 basis to determine the prospective accrual for injuries and damages to include in their  
21 revenue requirements in the present case. However, it is my understanding that they  
22 have not actually used a cash basis to record injuries and damages expense on their  
23 books of account and will not do so prospectively. That is, the Companies have

1 accrued injuries and damages expenses based on the estimated liability and then  
2 charged actual payments against the accrued reserve and, as far as I know, will  
3 continue to do so. Therefore, the reserves for injuries and damages represent accrued  
4 expenses in excess of actual cash disbursements, regardless of the method used to  
5 estimate the expenses for ratemaking purposes. Accordingly, I continue to believe  
6 that it is appropriate to deduct the accrued reserves for injuries and damages from rate  
7 base.

8  
9 **Q. Have you modified the net rate base deductions for injuries and damages from**  
10 **the amounts quantified in your direct testimony?**

11 A. Yes. In his rebuttal testimony, Mr. Stafford eliminated the deferred taxes related to  
12 injuries and damages, which is consistent with not deducting the reserve itself from  
13 rate base. Therefore my adjustments to rate base for injuries and damages, based on  
14 the Companies' rebuttal position, should reflect the reserves for injuries and damages  
15 net of accumulated deferred income taxes. I show these net adjustments on Schedule  
16 DJE-3, attached here as part of AG/CUB Exhibit 4.1. I also show the net adjustments  
17 to the Companies' gas rate bases on this schedule, which I had neglected to do in my  
18 direct testimony.

19  
20 **Incentive Compensation**

21 **Q. Have you read the Companies' rebuttal testimony regarding incentive**  
22 **compensation?**

1 A. Yes. Ms. Bauer appears to agree that the incentive compensation plan design in the  
2 2006 test year in this case is essentially the same as the plan design in the 2004 test  
3 year in the Companies' last case (Ameren Exhibit 31.0, page 13). Therefore, I  
4 believe that my elimination of the incentive compensation from the Companies'  
5 revenue requirements in the present case is consistent with the Commission's  
6 findings to deny recovery for such plans as in the Companies' last case.

7

8 **Reliability Expenditures**

9 **Q. In defense of the Companies' proposed pro forma adjustments to reliability**  
10 **expenditures, Mr. Getz cites the increases in reliability expenditures that have**  
11 **already taken place from the 2006 test year to 2007 and the first quarter of 2008.**  
12 **Do you have a response?**

13 A. Yes. Mr. Getz states that spending on reliability projects increased from \$816,000 in  
14 2006 to \$2.2 million in 2007 (representing all three Companies combined), which he  
15 notes is an increase of approximately 265%. In my opinion, the percentage increase  
16 from 2006 to 2007 is not particularly meaningful because of the relatively low base  
17 off which the increase is calculated. It would be inappropriate to assume that the  
18 reliability spending will continue to increase at a rate of 265% annually just because it  
19 increased at that rate from 2006 to 2007. However, even assuming that the spending  
20 continues to grow at that rate, the total for the three Companies would be  
21 approximately \$5.8 million in 2008, which would still fall well short of their forecast  
22 of \$18.7 million. Of the three Companies, the only one that saw a significant increase

1 in reliability spending from 2006 to 2007 is IP, and I have reflected that increase in  
2 the calculation of my proposed adjustment to the Companies' position.

3 With regard to 2008, Mr. Getz notes that in the first quarter the reliability  
4 spending was \$1.5 million for the three Companies. While annualizing the  
5 expenditures for the first quarter does not necessarily result in a reliable estimate of  
6 expenditures for the whole year, even if the spending in 2008 continues at the same  
7 rate as in the first quarter, the spending for the full year would be \$6 million, which  
8 would still be well short of the Companies' forecast of \$18.7 million.

9  
10 **Q. Have the Companies established that their forecasted levels of reliability**  
11 **expenditures are "known, measurable, and reasonably certain to occur," as**  
12 **asserted by Mr. Getz?**

13 **A.** No. There is little or nothing in the Companies' actual experience to support the level  
14 of reliability spending forecasted by the Companies for 2008. To the extent that the  
15 actual spending in 2007 has exceeded the spending in 2006, I have reflected that  
16 increase in my proposed adjustments to the Companies' position. As neither the  
17 trend in actual reliability spending nor the actual spending rate in 2008 through the  
18 first quarter supports the Companies' forecasts, I see no sound reason to modify the  
19 proposed adjustments in my direct testimony based on the Companies' rebuttal  
20 testimony.

1   **Tree Trimming**

2   **Q.    Have you reviewed Mr. Stafford's rebuttal testimony to your proposed**  
3       **adjustments to tree trimming expenses?**

4   **A.    Yes.  Based on the further explanation in his rebuttal testimony, I am no longer**  
5       proposing any further adjustment to the tree trimming expenses, as presented in the  
6       Companies' rebuttal positions.

7  
8   **Uncollectible Accounts Expense**

9   **Q.    Have you reviewed Mr. Stafford's rebuttal testimony to your proposed**  
10       **adjustments to uncollectible accounts expenses?**

11   **A.    Yes.  The Companies have adopted the three year averages, substantially as proposed**  
12       in my direct testimony, but with a modification to my calculation of the IP  
13       uncollectible accounts rates to reflect revised schedules that I had not recognized in  
14       my calculations.  I agree that Mr. Stafford's correction to my calculation of the IP  
15       uncollectible accounts rates is appropriate.  Therefore, I have no adjustments to the  
16       pro forma uncollectible accounts expenses presented in the Companies' rebuttal  
17       testimony.

18  
19   **Interest on Prepaid Gas**

20   **Q.    Have you reviewed the testimony of Mr. Wichmann and Mr. Moloney regarding**  
21       **your proposed adjustment to the pro forma interest expense on prepayments for**  
22       **gas?**

1 A. Yes. Mr. Wichmann states that the Companies disagree with my proposal. Mr.  
2 Moloney explains that the reasons for that disagreement are that I included  
3 prepayment balances prior to the time that the debt ratings of the Companies were  
4 below investment grade in my calculations and that I did not “provide rationale” for  
5 my proposed use of the latest known interest rates in the calculation of the pro forma  
6 interest expense.

7  
8 **Q. Do you have a response?**

9 A. Yes. In response to AG Data Request 9.02, the Companies provided updated  
10 information on the balances of prepayments. Based on that information, a twelve  
11 month average balance of prepayments subsequent to the time that the debt ratings of  
12 the Companies were downgraded can be calculated. I have performed such a  
13 calculation on Schedule DJE-4, Page 4 accompanying this rebuttal testimony. With  
14 regard to my use of the latest known interest rate to calculate the interest expense, I  
15 used that rate rather than the month by month historical rates used by the Companies  
16 because I believe that the latest known rate is more likely to be indicative of the  
17 prospective short-term interest rates. I acknowledge that there is no magic formula to  
18 predict future interest rates; however, Mr. Moloney has offered no reason to believe  
19 that the Companies’ method is superior to my method. I have updated my calculation  
20 to reflect the latest rate, as shown in the response to AG Data Request 9.02. My  
21 revised adjustment to the pro forma interest on prepayments in the Companies’  
22 rebuttal testimony is shown on Schedule DJE-4, Page 4.

23

1 **Rate Case Expense**

2 **Q. Do you agree with Mr. Wichmann that your proposed adjustment to eliminate**  
3 **the amortization of rate case costs from prior rate cases would deny the**  
4 **Companies the opportunity to recover prudently incurred costs (Ameren**  
5 **Exhibit 20.0, page 11)?**

6 A. No. As I stated in my direct testimony, when the period between rate cases is longer  
7 than the period assumed in calculating the amortization of rate case expenses, then  
8 rate case expenses will be “over-recovered.” The over-recovery is not refunded to  
9 ratepayers in those circumstances. Thus, there is an opportunity, not only to recover,  
10 but also to over-recover rate case expenses. Given the existence of the opportunity to  
11 over-recover rate case expenses, I do not believe that it is unreasonable to eliminate  
12 the amortization of costs from prior rate cases when the period between rate cases is  
13 shorter than assumed.

14

15 **Administrative and General Expense**

16 **Q. In describing your proposed adjustment to IP administrative and general**  
17 **(“A&G”) expenses, Mr. Adams states that in calculating the A&G allowed by**  
18 **the Commission in Docket No. 06-0072 you assumed that 69.53% of the A&G**  
19 **expense was disallowed in that case. Is he correct?**

20 A. No. As can clearly be seen on Schedule DJE-4, Page 3 accompanying AG/CUB  
21 Exhibit 1.0, the A&G expenses disallowed by the Commission in Docket No. 06-  
22 0072 was 30.47% of total A&G expenses. The 69.53% referred to by Mr. Adams is

1 the percentage of IP A&G expenses allowed by the Commission, not the percentage  
2 that was disallowed.

3

4 **Q. Mr. Adams also criticizes your proposed adjustment to the IP A&G expenses for**  
5 **failing to take into account the reclassification of certain expenses to Accounts**  
6 **920-923 in 2006 from other accounts in 2004. Is there any merit to this**  
7 **criticism?**

8 A. Yes. Subsequent to Ameren's acquisition of IP, certain accounting practices were  
9 modified, and the methods of charging expenses to certain O&M accounts changed.  
10 In particular, pensions and benefits of \$5,316,000 were reclassified from Account 926  
11 to Account 920 (response to AG Data Request 9.04). Telecommunications expenses  
12 and loadings charged to Account 921 increased by \$1,863,000 (response to AG Data  
13 Request 9.05). Depreciation and amortization expenses of \$5,389,000 that had been  
14 spread to other accounts were reclassified to Account 923 (response to AG Data  
15 Request 9.06).

16 I agree that the reclassification of expenses from other accounts to Accounts  
17 920 – 923 due to changed accounting practices is a reasonable explanation of the  
18 increases in expenses charged to those accounts from 2004 to 2006. On my Schedule  
19 DJE-4, Page 3 accompanying this rebuttal testimony, I have eliminated the effect of  
20 these reclassifications from my calculation of the unexplained increase in A&G  
21 expenses from the amount allowed by the Commission in Docket No. 06-0072 to the  
22 test year A&G expenses in the present case. I am now proposing to reduce the pro  
23 forma IP A&G expenses by \$7,736,000.

1   **Updated Effect of Revenue Requirement Issues**

2   **Q.     Have you prepared an updated calculation of the revenue requirement**  
3       **effects of the issues that you are addressing?**

4   A.     Yes. I have prepared an updated calculation of the revenue requirement effects of  
5       issues that I am addressing on my Schedule DJE-1 accompanying this rebuttal  
6       testimony. In addition to incorporating the modifications and updates addressed in  
7       this testimony, I have also reflected the rate of return as proposed by CUB Witness  
8       Mr. Thomas in his rebuttal testimony. I have quantified the effect of the issues  
9       based on adjustments to the Companies' revenue requirements as presented in their  
10      rebuttal testimony.

11

12   **Q.     Does this conclude your rebuttal testimony?**

13   A.     Yes.

14